

**REPORT OF THE AUDIT OF THE
LETCHER COUNTY
SHERIFF'S SETTLEMENT - 2008 UNMINED COAL TAXES**

**For The Period
October 25, 2008 Through August 12, 2009**



**CRIT LUALLEN
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE LETCHER COUNTY SHERIFF'S SETTLEMENT - 2008 UNMINED COAL TAXES

**For The Period
October 25, 2008 Through August 12, 2009**

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2008 Unmined Coal Taxes for the Letcher County Sheriff for the period October 25, 2008 through August 12, 2009. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$1,494,877 for the districts for 2008 Unmined Coal Taxes, retaining commissions of \$54,497 to operate the Sheriff's office. The Sheriff distributed taxes of \$1,442,640 to the districts for 2008 Unmined Coal Taxes. Taxes of \$74 are due to the districts from the Sheriff and refunds of \$2,334 are due to the Sheriff from the taxing districts.

Report Comments:

- The Sheriff's Office Lacks Adequate Segregation Of Duties
- Sheriff Did Not Batch And Process Tax Bills On A Daily Basis

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Steven L. Beshear, Governor
Jonathan Miller, Secretary
Finance and Administration Cabinet
Honorable Jim Ward, Letcher County Judge/Executive
Honorable Danny Webb, Letcher County Sheriff
Members of the Letcher County Fiscal Court

Independent Auditor's Report

We have audited the Letcher County Sheriff's Settlement - 2008 Unmined Coal Taxes for the period October 25, 2008 through August 12, 2009. This tax settlement is the responsibility of the Letcher County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Letcher County Sheriff's unmined coal taxes charged, credited, and paid for the period October 25, 2008 through August 12, 2009, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated on November 30, 2009 our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



To the People of Kentucky
Honorable Steven L. Beshear, Governor
Jonathan Miller, Secretary
Finance and Administration Cabinet
Honorable Jim Ward, Letcher County Judge/Executive
Honorable Danny Webb, Letcher County Sheriff
Members of the Letcher County Fiscal Court

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The Sheriff's Office Lacks Adequate Segregation Of Duties
- The Sheriff Did Not Batch And Process Tax Bills On A Daily Basis

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

November 30, 2009

LETCHER COUNTY
DANNY WEBB, SHERIFF
SHERIFF'S SETTLEMENT - 2008 UNMINED COAL TAXES

For The Period October 25, 2008 Through August 12, 2009

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Unmined Coal - 2008 Taxes	\$ 196,475	\$ 332,298	\$ 807,633	\$ 208,434
Penalties	588	994	2,341	624
Gross Chargeable to Sheriff	197,063	333,292	809,974	209,058
<u>Credits</u>				
Exonerations	25	43	101	27
Discounts	3,616	6,115	14,921	3,837
Delinquents:				
2008 Unmined Coal	3,339	5,647	13,297	3,542
Total Credits	6,980	11,805	28,319	7,406
Taxes Collected	190,083	321,487	781,655	201,652
Less: Commissions (a)	8,079	13,663	24,185	8,570
Taxes Due	182,004	307,824	757,470	193,082
Taxes Paid	181,977	307,777	759,804	193,082
Due Districts or (Refunds Due Sheriff) as of Completion of Audit	\$ 27	\$ 47	\$ (2,334)	\$ 0

(a), (b), and (c) See next page

The accompanying notes are an integral part of this financial statement.

LETCHER COUNTY
DANNY WEBB, SHERIFF
SHERIFF'S SETTLEMENT - 2008 UNMINED COAL TAXES
For The Period October 25, 2008 Through August 12, 2009
(Continued)

(a) Commissions:

4.25% on	\$	713,222
3% on		708,137
4% on		73,518

(b) Special Taxing Districts:

Library District	\$	15
Health District		19
Extension District		10
Soil District		<u>3</u>
Due Districts	\$	<u><u>47</u></u>

(c) School Districts

Common School	\$	<u>(2,334)</u>
(Refunds Due Sheriff)	\$	<u><u>(2,334)</u></u>

LETCHER COUNTY
NOTES TO FINANCIAL STATEMENT

August 12, 2009

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Letcher County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

LETCHER COUNTY
NOTES TO FINANCIAL STATEMENT
August 12, 2009
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Letcher County Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of August 12, 2009, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Tax Collection Period

The tangible property tax assessments were levied as of January 1, 2008. Property taxes were billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was February 13, 2009 through August 12, 2009.

Note 4. Sheriff's 10% Add-On Fee

The Letcher County Sheriff collected \$4,985 of 10% add-on fees allowed by KRS 134.430(3). This amount was used to operate the Sheriff's office. As of August 12, 2009 the Sheriff owed \$4,745 in 10% add-on fees to his fee account.

Note 5. Advertising Costs And Fees

The Letcher County Sheriff collected \$50 of advertising costs and \$25 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). Advertising fees were used to operate the Sheriff's office. As of August 12, 2009, the Sheriff owed \$50 in advertising costs to the county.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Jim Ward, Letcher County Judge/Executive
Honorable Danny Webb, Letcher County Sheriff
Members of the Letcher County Fiscal Court

Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the Letcher County Sheriff's Settlement - 2008 Unmined Coal Taxes for the period October 25, 2008 through August 12, 2009, and have issued our report thereon dated. The Sheriff prepares his financial statement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Letcher County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Letcher County Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Letcher County Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the modified cash basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiency described in the accompanying comments and recommendations to be a significant deficiency in internal control over financial reporting.

- The Sheriff's Office Lacks Adequate Segregation of Duties



Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiency described above to be a material weakness.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Letcher County Sheriff's Settlement - 2008 Unmined Coal Taxes for the period October 25, 2008 through August 12, 2009, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under Government Auditing Standards and which is described in the accompanying comments and recommendations.

- The Sheriff Did Not Batch And Process Tax Bills On A Daily Basis

The Letcher County Sheriff's responses to the findings identified in our audit are included in the accompanying comments and recommendations. We did not audit the Sheriff's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Letcher County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

November 30, 2009

COMMENTS AND RECOMMENDATIONS

LETCHER COUNTY
DANNY WEBB, SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Period October 25, 2008 Through August 12, 2009

STATE LAWS AND REGULATIONS:

The Sheriff Did Not Batch And Process Tax Bills On A Daily Basis

Our audit procedures revealed the Sheriff did not batch and process tax bills on a daily basis. The Sheriff did batch tax bills and batches were processed. However, batches contained bills paid on multiple dates reflecting activity for several days. Batch processing should reflect daily activity and taxes collected should be deposited intact daily. By not batching and processing tax bills on a daily basis, the prevention or detection of errors in a timely manner is more difficult. We recommend the Sheriff batch and process tax bills on a daily basis.

Sheriff's Response: We will implement a procedure to batch and process tax bills on a daily basis.

INTERNAL CONTROL - MATERIAL WEAKNESS:

The Sheriff's Office Lacks Adequate Segregation Of Duties

During our review of internal control, we found that the Sheriff's office has a lack of adequate segregation of duties. A significant deficiency occurs when someone has custody over assets and the responsibility of recording financial transactions. The bookkeeper collects, deposits, and records all receipts and prepares and records all checks. In addition, the bookkeeper prepares all bank reconciliations. Good internal controls dictate that the same employee should not be handling, recording, and reconciling cash receipts. Furthermore, authorized check signers should be independent of receiving cash and preparing checks. A material weakness occurs when a significant deficiency, or combination of significant deficiencies, results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. The sheriff's office failed to prepare reconciliations of taxes collected to taxes paid. We noted errors in tax collections which could have been prevented or detected if the sheriff's office had prepared reconciliations of taxes collected to taxes paid.

If the Sheriff cannot segregate these duties, compensating controls such as the Sheriff recounting daily deposits, agreeing deposits to daily tax reports, and agreeing deposits to the receipts ledger should be implemented. The Sheriff should also review reconciliations of taxes collected to taxes paid. The Sheriff should document these reviews by initialing and dating the bank deposit, daily checkout sheet, receipts ledger, and reconciliations. The Sheriff could also periodically compare the bank reconciliations to the balance in the checkbook and document this by initialing and dating the bank reconciliation and the balance in the checkbook. We recommend the Sheriff review office procedures to address this significant deficiency.

Sheriff's Response: We are unable to segregate duties because of lack of funds for employees. However, we have implemented procedures that help to monitor the financial transactions by involving the Sheriff review.

